Industry Super Network

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Media release

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Choice of Fund fails to engage consumers

The Choice of Fund Policy has failed to resolve widespread consumer disengagement with superannuation, according to new research by The Australia Institute and Industry Super Network to be launched in Sydney today by Nick Sherry, Minister for Superannuation.

As few as four per cent of workers switch super funds each year and around half of this is 'passive' choice due to job change or fund closure. Choice of Fund has also been largely unsuccessful in lowering the number of multiple accounts, one of the most serious problems for superannuation policy-makers and consumers.

'The majority of Australians have derived little benefit from greater choice and competition in the superannuation sector', said co-author and Institute Research Fellow Josh Fear. 'Choice of Fund has benefited the financial services industry and highly engaged consumers, but has failed to adequately protect those who take a less active interest in their superannuation affairs.'

'The failure to promote consumer-centred competition has resulted in considerable inefficiency across the super system', said Industry Super Network Manager of Research and Policy Nick Coates. 'Average fees levied by super fund managers have not fallen and significant fee and performance variations persist between not-for-profit funds and retail funds.

'While many workers are protected through awards which specify a default fund, this is not the case for everyone. Financial outcomes for workers can vary considerably depending on the fund that their employer nominates as the default fund.'

The research found that while Australians value autonomy in relation to their financial affairs, many are frustrated with the complexity of the superannuation system and would prefer simpler choices to be available.

It also found that the needs of disengaged consumers, including those with low super balances or who are a long way from retirement, are not adequately addressed through the current super system.

The report, *Choosing Not to Choose: Making superannuation work by default*, proposes a range of improvements to the way default superannuation funds are chosen. It recommends that employer-nominated default funds be required to meet certain standards to protect workers and ease the burden on employers. These would include:

- Capping ongoing fees and charges;
- Prohibiting entry and exit fees;
- Prohibiting the payment of ongoing financial advice fees, including commissions;
- Offering employers a clearinghouse service for super payments;
- Keeping members in the default fund even after contributions cease; and
- Automatically following up arrears in payments.

The launch will take place at the Grace Hotel (77 York St, Sydney) at 11am, Tuesday 16th December.

The paper is available at the Australia Institute's website: www.tai.org.au

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